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STATE OF IOWA**

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE

July 2, 2018

Contact: Marlys Gaston
515/281-5834

Auditor of State Mary Mosiman today released an agreed-upon procedures report on the City of Van Wert, Iowa for the period October 1, 2016 through September 30, 2017. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Mosiman recommended the City review its control procedures to obtain the maximum internal control possible, including procedures to reconcile utility billings, collections and delinquent accounts for each billing period. The City should also ensure the financial activity and balances of all City accounts, including the Volunteer Fire Department and investments, are included in the City's accounting records. Also, the use of debit cards should be prohibited and all disbursements should be properly supported. In addition, the City should fully implement the recommended Uniform Chart of Accounts for Iowa City Governments to provide better financial information and control.

A copy of the agreed-upon procedures report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1722-0254-EP0P>.

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CITY OF VAN WERT
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
OCTOBER 1, 2016 THROUGH SEPTEMBER 30, 2017

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on Applying Agreed-Upon Procedures	5-6
Detailed Recommendations:	<u>Finding</u>
Segregation of Duties	A 8
Bank Reconciliations	B 8
Annual Financial Report	C 9
Reconciliation of Utility Billings, Collections and Delinquent Accounts	D 9
Monthly City Clerk's Report	E 9
Disbursements	F 9
Questionable Disbursements	G 9-10
Debit Cards	H 10
City Clerk's Salary	I 10
Payroll	J 10
Chart of Accounts	K 10
City Fire Department	L 11
City Council Meeting Minutes	M 11
Certified Budget	N 11
Separately Maintained Records	O 11
Business Transactions	P 12
Electronic Check Retention	Q 12
Journal Entries	R 12
Local Option Sales Tax	S 13
Receipts	T 13
Investments	U 13
Depository Resolution	V 13
Financial Condition	W 13
Accounting Policies and Procedures Manual	X 13
Staff	14

City of Van Wert

Officials

<u>Name</u>	<u>Title</u>	<u>Term Began</u>	<u>Term Expires</u>
Ronnie Fry	Mayor	Jan 2016	Jan 2018
Larry Lamb	Council Member	Jan 2016	Jan 2018
Duane Otto	Council Member	Jan 2016	Jan 2018
Jerry Parmer	Council Member	Jan 2016	Jan 2018
Keith Palmer(Elected)	Council Member	Nov 2017	Jan 2020
Rick Schuldt	Council Member	Jan 2016	Jan 2018
Jolene Tennent	City Clerk/Treasurer		Indefinite
Ron Rockhold	Attorney		Indefinite

City of Van Wert



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Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Van Wert for the period October 1, 2016 through September 30, 2017, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Van Wert's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2017 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.


9. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
10. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
11. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
12. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Van Wert during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State

June 20, 2018

Detailed Recommendations

City of Van Wert

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:
- (1) Cash – handling, reconciling and recording.
 - (2) Investments – recordkeeping, custody of investments and reconciling earnings.
 - (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
 - (4) Utilities – billing, collecting, depositing, entering rates into the system and maintaining detail accounts receivable records.
 - (5) Disbursements – invoice processing, check writing, mailing, reconciling and recording.
 - (6) Payroll – recordkeeping, preparing checks, distributing checks and entering rates into the system.
 - (7) Journal entries – preparing and recording with no independent review.
 - (8) Accounting System – performing all general accounting function, controlling all data input and output and having custody of assets.

For the Van Wert Volunteer Fire Department, one individual has control over each of the following areas:

- (1) Cash – handling, reconciling and recording.
- (2) Receipts – opening mail, collecting, depositing, recording and reconciling.
- (3) Disbursements – check writing, signing, mailing, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City and the Fire Department should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. The monthly "Financial Statement" report includes the City's main checking account by fund. The City's investments are listed, but are not included in any fund balances. The activity included on the report is the cleared bank activity and not the recorded receipts and disbursements. No outstanding deposits and checks were reported. For the months tested, there was no evidence of independent review of the bank reconciliation.

Recommendation – The City should establish procedures to ensure the general ledger is reconciled to the bank and investment account balances monthly. Book balances, including investments, should be reported by fund to the City Council and reconciled to bank and investment account balances monthly. Variances, if any, should be reviewed and resolved timely. An independent person should review the reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

City of Van Wert

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (C) Annual Financial Report – The Annual Financial Report (AFR) for the year ended June 30, 2017 did not include the investments balances at June 30, 2017 of \$108,567. In addition, the budget column did not match the adopted budget and receipts and disbursements reported did not agree with the City's financial records. Total receipts were understated by \$1,130 and total disbursements were overstated by \$37. Also, the Fire Department, Library and City Hall activity were reported as Special Revenue Fund activity, but should have been reported as General Fund activity.

Recommendation – The City should ensure budget amounts reported on the AFR agree with the certified budget. Additionally, all City funds, including investments, should be included on the AFR and the City should ensure future AFRs are accurate and agree with the City's records. The City should correctly classify and report the Fire Department, Library and City Hall activity in the proper fund.

- (D) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The review should be documented by the signature or initials of the reviewer and the date of the review.

- (E) Monthly City Clerk's Report – A monthly City Clerk's report, including a summary of receipts, list of claims paid and balances for each fund is prepared. However, the report does not include a comparison of actual disbursements to the certified budget by function. Additionally, investments are not allocated and reported by fund.

Recommendation – A comparison of actual disbursements to budget by function should be provided to the City Council monthly for review. The City should establish procedures to ensure all reports are accurate and include all City funds, including investments.

- (F) Disbursements – It was noted that 30 of the 30 disbursements tested had supporting documentation that was not cancelled to prevent reuse.

Recommendation – The City should establish procedures to cancel supporting documentation for claims to prevent reuse.

- (G) Questionable Disbursements – A certain disbursement by the Volunteer Fire Department we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. This disbursement is detailed as follows:

Paid to	Purpose	Amount
Flowers N More	Memorial flowers for member's relative	\$ 50

City of Van Wert

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper public purpose documentation.

- (H) Debit Cards – The City and the Volunteer Fire Department have debit cards available for use while on City business.

Additionally, the Volunteer Fire Department made two \$40 withdrawals using the debit card which were not supported or approved by the City Council. According to Fire Department personnel, the withdrawals were used for fuel purchases.

Recommendation – The City Council should prohibit the use of debit cards for City purchases, including purchases by the Fire Department. The function of a debit card is to provide immediate access to the City's funds. Unlike credit cards, debit cards offer limited ability to set guidelines for access and limited, if any, repercussions for fraudulent transactions. In addition, there is no process for prior approval of purchases made with a debit card.

All disbursements should be supported by invoices or other supporting documentation and all disbursements should be approved by the City Council.

- (I) City Clerk's Salary – The salary increase documented in the City Council minutes for the City Clerk did not include the actual approved wage.

Recommendation – Actual approved wages should be documented in the City Council meeting minutes.

- (J) Payroll – Wages and withholdings are not reviewed by an independent person to ensure proper payroll calculations. The IPERS employee withholding rate was 5.78% rather than 5.9% and Medicare employee withholdings were at 1.9%, instead of 1.45%. In total, excess funds were being withheld from employees' payroll.

Recommendation – An independent person should review and test wages and withholdings for proper calculations. Evidence of testing should be retained.

- (K) Chart of Accounts – The City has not fully implemented the recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee.

Recommendation – To provide better financial information and control, the recommended COA, or its equivalent, should be followed.

City of Van Wert

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (L) City Fire Department – Pre-numbered receipts were not issued for all collections. Invoices or other supporting documentation were not always available to support disbursements.

Recommendation – Pre-numbered receipts should be issued for all collections at the time of collection to provide additional control over the proper collection and recording of all money. All disbursements should be supported by invoices or other supporting documentation.

- (M) City Council Meeting Minutes – The following were identified:

- (1) Although minutes of City Council proceedings were posted, the City did not post a summary of receipts or total disbursements by fund as required by Chapter 372.13(6) of the Code of Iowa.
- (2) Minutes of the City Council meetings were not signed as required by Chapter 380.7 of the Code of Iowa.
- (3) Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published or posted within fifteen days of the meeting. The City did not retain documentation to indicate when minutes were posted.
- (4) City Council meetings were not preceded by proper public notice as required by Chapter 21.4 of the Code of Iowa. Proper notice for a City with a population of less than 200 includes posting the agenda in three public places designated by City ordinance.

Recommendation – The City should comply with the Code of Iowa and provide public notice of meetings by posting the agenda in three public places designated by City ordinance. City Council meeting minutes should be posted within fifteen days of the meeting and documentation should be retained to demonstrate timely postings. In addition, the City should ensure the minutes postings include a summary of receipts and total disbursements by fund, as required, and all minutes should be signed to authenticate the actions taken.

- (N) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the public safety and public works functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Chapter 384.16(3) of the Code of Iowa requires the City to publish notice of the public hearing on the budget. Notice of Public Hearing for the City’s budget included February 24, 2016 as the date of the hearing. However, the adopted budget and minutes indicated the hearing date was February 29, 2017. Proper notice to the public was not provided.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, public notice should be published in accordance with the Code of Iowa.

City of Van Wert

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (O) Separately Maintained Records – The City of Van Wert Volunteer Fire Department maintains separate accounting records for certain operations. These transactions and resulting balances are not included in the City’s accounting records. For two of the months reviewed, no bank statements were available.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and reported to the City Council on a monthly basis.

Additionally, the City should ensure they are receiving monthly bank statements for all City accounts.

- (P) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jerry Parmer, City Council Member	Mowing	\$ 3,845

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, these transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year and the transactions were not competitively bid.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

- (Q) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City’s Volunteer Fire Department does not receive an image of the back of each cancelled check for its bank account.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (R) Journal Entries – Journal entries were not properly supported or independently reviewed.

Recommendation – The City should establish procedures to require journal entries to be properly supported and an independent person should review all journal entries for propriety.

City of Van Wert

Detailed Recommendations

For the period October 1, 2016 through September 30, 2017

- (S) Local Option Sales Tax – The City’s local option sales tax (LOST) ballot requires 33% of the LOST proceeds to be used for public safety, 33% for home and community development and 33% for human development. The City has not tracked the use of LOST receipts.

Recommendation – The City should implement procedures to track LOST activity to ensure LOST receipts are used in accordance with the ballot.

- (T) Receipts – One local option sales tax receipt for \$500 was incorrectly posted to the Special Revenue, Road Use Tax Fund.

Recommendation – The City should make a corrective transfer from the Special Revenue, Road Use Tax Fund to the Special Revenue, Local Option Sales Tax Fund. In the future, the City should ensure receipts are properly recorded.

- (U) Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (V) Depository Resolution – The City has not adopted a depository resolution naming official depositories and the maximum deposit amounts as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City Council, by resolution, should adopt a depository resolution naming official depositories and establishing maximum deposit amounts as required by Chapter 12C.2 of the Code of Iowa.

- (W) Financial Condition – During the fiscal year, the City had deficit balances of \$285, \$625 and \$760 in October 2016, November 2016 and December 2016, respectively, in the Special Revenue, Fire Department Fund. Additionally, the Special Revenue, Local Option Sales Tax Fund had deficit balances of \$826 and \$47 in November 2016 and December 2016, respectively. As of September 2017, the City had no deficit balances reported.

Recommendation – The City should monitor fund balances monthly and investigate alternatives to eliminate the deficits in a timely manner.

- (X) Accounting Policies and Procedures Manual – The City does not have a current accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

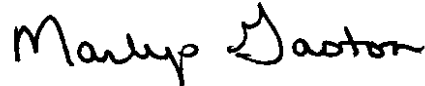
- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in account and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

City of Van Wert

Staff

This engagement was performed by:

Katherine L. Rupp, CPA, Manager
Justin M. Gibbons, Staff Auditor
Taylor N. Kivell, Assistant Auditor

A handwritten signature in black ink that reads "Marlys K. Gaston". The signature is written in a cursive, flowing style.

Marlys K. Gaston, CPA
Director